

Contracting Working Group Update for the TPT Simplification Task Force

Craig McPike, Chair
September 25, 2012

Where have we been?

- Working Group meeting August 21 --
Presentations by
 - Christie Comanita, ADOR
 - Lee Grafstrom, League of Arizona Cities and Towns
 - Barb Dickerson, Deloitte (Historical Context)
 - Elaine Smith, ADOR (Revenue Sharing)
- Task Force meeting August 28
 - Four types of contracting-industry taxpayers: Civil, Commercial, Residential Builders, Service Industry
 - Materials-based tax as focus to simplify compliance and ease administration

Where have we been?

- Working Group meeting September 18
 - Presentation by Linda Stanfield regarding Service Industry concerns with current taxing regime
 - Tentative proposal presented, involving possibility of four components
 - Materials-based tax
 - City speculative builder tax to remain in effect, with credit for city tax paid on materials
 - Revenue-sharing adjustments to extent reasonable
 - Equalize use tax rates to mirror TPT rates
 - Concerns expressed about keeping speculative builder tax without having sufficient financial data to fully understand any revenue impact

Who is being consulted?

- ADOR
- League
- County Supervisors Association
- Arizona Tax Research Association
- Associated General Contractors – AZ Chapter
- Arizona Builder's Alliance
- Arizona Housing Association
- Homebuilders Association of Central Arizona
- Various service-industry contractors

Current Issues for Task Force Consideration

- Materials-Based Tax
 - Vendor-based vs. Contractor-based
 - Vendor-based: Tax when purchased by Contractor
 - Easy – vendors already must be licensed and report
 - Takes burden off of Contractors on compliance side
 - Would alleviate any abuses under current system
 - Creates issues for contractors of large projects because bids with tax are required before supplier location is known
 - Would likely require complex revenue-sharing adjustments due to location of vendors
 - Could result in procurement office in County island to avoid City tax

Current Issues for Task Force Consideration

- Materials-Based Tax, continued
 - Contractor-based: Contractor deemed to be retailer of materials that are sold to Owner
 - Would avoid significant need for revenue-sharing adjustments because job location is jurisdiction receiving tax revenues
 - Would avoid potential issue of locating procurement office in County island to avoid City tax
 - Could include service-industry exception – e.g., if tax paid on purchase of materials under \$X, Contractor alleviated of “deemed retailer” burden – no licensing for most in service industry
 - Would require larger Contractors to remain licensed in various jurisdictions where jobs are located
 - Would require Contractors to keep track of materials purchased for resale and document same

Open Questions/Issues

- Financial Impact of Various Approaches
 - Jurisdictional and Overall Collections
 - Data Gathering
 - ADOR working on several alternative models
 - ATRA's 1999 study of revenue impact for switch to materials-based tax
 - Preliminary survey of contractors for materials-sourcing
 - Financial impact of switch from speculative builder tax difficult to determine
- Task Force Dialogue....